

# Financial Section



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

### **INDEPENDENT AUDITOR'S REPORT**

Governor John Hoeven  
The Legislative Assembly  
Steve Cochrane, Executive Director  
State Investment Board  
Teachers' Fund for Retirement Board  
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the business-type activities and fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the year ended June 30, 2005. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of RIO are intended to present the financial position, the changes in financial position and plan net assets and the cash flows of only that portion of the business-type activities and fiduciary funds of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2005, and the changes in its financial position, plan net assets and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarial accrued liability is approximately \$496 million at June 30, 2005. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates are insufficient to amortize the unfunded actuarial accrued liability over any period of time, based on the current actuarial assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary funds of RIO as of June 30, 2005, and the respective changes in financial position, plan net assets and cash flows where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2005, and the results of operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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OTHER OFFICES: Minot and Grand Forks, ND  
Thief River Falls, MN

**RSM McGladrey Network**  
An Independently Owned Member

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information shown on pages 44 and 45 are presented for purposes of additional analysis and are not a required part of the financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 16 through 21 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 50 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

We did not audit the data included in the introductory, investment, actuarial and statistical sections of this report, and accordingly, we do not express an opinion thereon.

A report in accordance with Government Auditing Standards, on the RIO's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants is issued under separate cover.

  
**BRADY, MARTZ & ASSOCIATES, P.C.**

September 13, 2005

BRADY, MARTZ & ASSOCIATES, P.C.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2005

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the basic financial statements, which follow this discussion.

### FINANCIAL HIGHLIGHTS

Total assets exceeded total liabilities in the proprietary fund at the close of fiscal year 2005 by \$960,180. This was mostly due to the capitalization of the retirement administration software in development at year end.

Total net assets increased in the fiduciary fund by \$448.4 million or 11.3% due to net gains in the investment markets.

The ND Teachers' Fund for Retirement's (TFFR) funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2005, the funded ratio was approximately 74.8%.

Revenues and expenses in the proprietary fund increased from the prior year mainly due to the retirement software replacement project in the retirement program. This project will result in the replacement of the current mainframe-based system used to administer the TFFR plan. The project began during the previous fiscal year and as of the end of the current fiscal year, just over \$1.4 million had been expended on the project. The total budget for the project is \$2 million.

Additions in the fiduciary fund for the year were \$532.9 million, which is comprised of contributions of \$64.1 million and investment income of \$468.8 million.

Deductions in the fiduciary fund increased over the prior year by \$4.9 million or 5.7%. This increase represented a rise in the number of retirees drawing retirement benefits from the pension fund.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (proprietary and fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

# **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## **Management's Discussion and Analysis**

**June 30, 2005**

### **Fund Financial Statements**

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO has two kinds of funds:

- Proprietary funds – Services for which RIO charges customers a fee are generally reported in proprietary funds. Proprietary funds provide both long and short-term financial information.
  - We use an internal service fund (one type of proprietary fund) to report activities that provide investment and administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).
- Fiduciary funds – RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

### **FINANCIAL ANALYSIS**

RIO's internal service fund total assets as of June 30, 2005, were \$1,308,918 and were comprised mostly of capital assets and cash. Total assets increased \$608,495 or 86.9% from the prior year primarily due to an increase in capital assets.

Total current liabilities as of June 30, 2005, were \$261,915 and were comprised mostly of accrued payroll and accounts payable. Total current liabilities increased \$18,536 or 7.6% from the prior year primarily due to an increase in the due to fiduciary funds account at year-end. Total noncurrent liabilities increased \$3,720 or 4.5% due to a larger balance of accrued leave at year-end.

RIO's internal service fund assets exceeded its liabilities at the close of fiscal year 2005 by just over \$960,000.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2005

ND Retirement and Investment Office  
Net Assets – Internal Service Fund  
(In Thousands)

	<u>2005</u>	<u>2004</u>	<u>Total % Change</u>
<b>Assets</b>			
Cash	\$ 257	\$ 133	93.8%
Receivables	39	144	(73.3)%
Capital Assets	<u>1,013</u>	<u>423</u>	139.3%
<b>Total Assets</b>	1,309	700	86.9%
<b>Current Liabilities</b>	262	243	7.6%
<b>Noncurrent Liabilities</b>	<u>87</u>	<u>83</u>	4.5%
<b>Total Liabilities</b>	349	326	6.8%
<b>Net Assets – Invested in capital assets, net of debt</b>	1,004	410	144.5%
<b>Net Assets – Unrestricted</b>	<u>(44)</u>	<u>(36)</u>	19.0%
<b>Total Net Assets</b>	<u>\$ 960</u>	<u>\$ 374</u>	156.8%

RIO's fiduciary fund total assets as of June 30, 2005, were \$5.0 billion and were comprised mainly of investments and invested securities lending collateral. Total assets increased over \$560 million or 12.6% from the prior year primarily due to gains in the financial markets during the fiscal year.

Total liabilities as of June 30, 2005, were \$583.0 million and were comprised mostly of securities lending collateral. Total liabilities increased \$112 million or 23.8% from the prior year primarily due to an increase in securities lending collateral at year-end.

RIO's fiduciary fund total net assets were \$4.4 billion at the close of fiscal year 2005.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2005

### ND Retirement and Investment Office Net Assets – Fiduciary Funds (In Millions)

	<u>2005</u>	<u>2004</u>	<u>Total % Change</u>
<b>Assets</b>			
Investments	\$ 4,389	\$ 3,946	11.2%
Sec Lending Collateral	579	468	23.9%
Receivables	29	24	21.4%
Cash & Other	<u>9</u>	<u>8</u>	3.8%
<b>Total Assets</b>	5,006	4,446	12.6%
 Accounts Payable	4	3	14.0%
Sec Lending Collateral	<u>579</u>	<u>468</u>	23.9%
<b>Total Liabilities</b>	583	471	23.8%
 <b>Total Net Assets</b>	<u>\$ 4,423</u>	<u>\$ 3,975</u>	11.3%

### ND Retirement and Investment Office Changes in Net Assets – Fiduciary Funds (In Millions)

	<u>2005</u>	<u>2004</u>	<u>Total % Change</u>
<b>Additions:</b>			
Contributions	\$ 64	\$ 64	0.7 %
Investment Income	<u>468</u>	<u>521</u>	(10.1)%
<b>Total Additions</b>	532	585	(9.0)%
 <b>Deductions</b>	89	84	5.7 %
 <b>Net inc(dec) from unit transactions</b>	<u>5</u>	<u>(5)</u>	208.2 %
 <b>Total inc(dec) in net assets</b>	<u>\$ 448</u>	<u>\$ 496</u>	(9.7)%

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

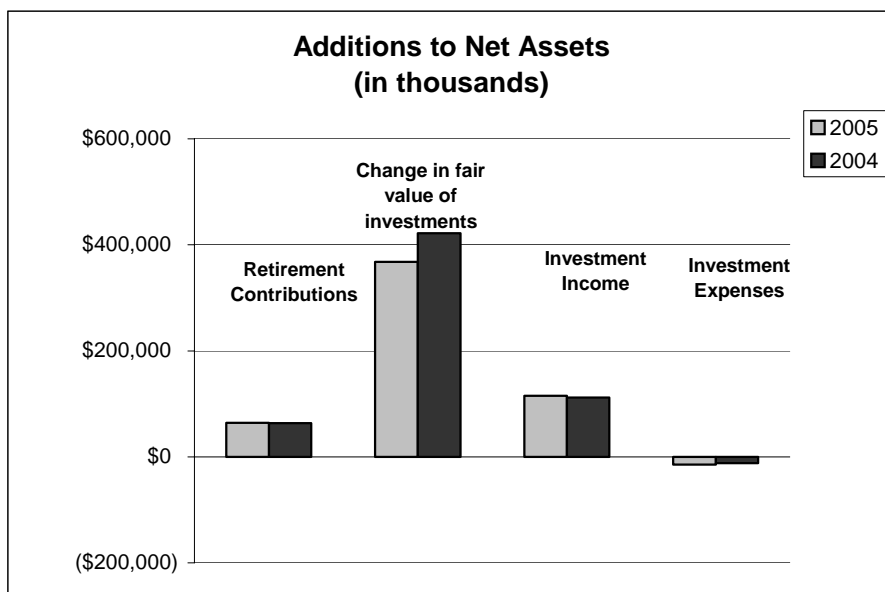
## Management's Discussion and Analysis

June 30, 2005

### Statement of Changes in Net Assets – Additions

Contributions to the pension trust fund increased by \$418,000 or 0.7% over the previous fiscal year. The fair value of investments in the fiduciary funds increased by \$368.0 million during fiscal year 2005 following an increase of \$421.7 million in fiscal year 2004.

Investment income, including net income from securities lending activities, increased by \$3.4 million from last year due to higher interest rates in the bond markets. Investment expenses increased by \$2.6 million or 21.7% due to higher investment market values which the fee calculations are based upon.



### Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by \$7.3 million or 9.5% during the fiscal year ended June 30, 2005. This was due to an increase in the number of retirees in the plan.

Refunds decreased significantly in fiscal year 2005. The 2003 legislature approved a law allowing Department of Public Instruction employees covered under TFFR to make an election to transfer to the Public Employees Retirement System (PERS). Approximately \$3.8 million in member account balances and/or actuarially determined values were transferred to PERS in 2004 and these are shown as refunds on the financial statements. Total refunds for 2005 were \$2.7 million versus \$5.8 million in 2004. This is a 52.9% decrease.

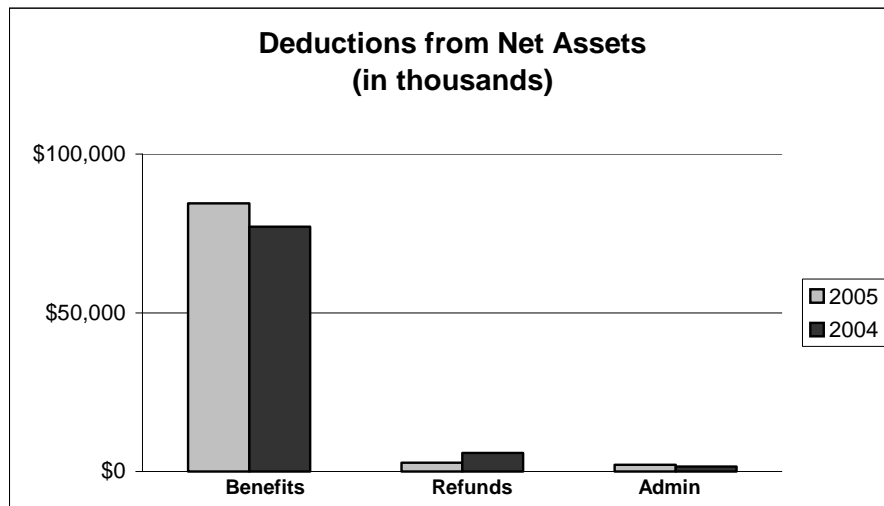


# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Management's Discussion and Analysis

June 30, 2005

Administrative expenses also increased, up \$573,061 from fiscal year 2004. This increase was due to the continuing installation of the retirement software replacement project in the pension fund.



### CONCLUSION

Fiscal Year 2005 saw continued strength in the global equity markets which benefited RIO's combined net assets measureably.

Management believes, and actuarial studies concur, that the TFFR plan is in a financial position to meet its current obligations. However, all of the investment losses from previous years are not yet reflected in the actuarial measurements due to the five-year smoothing approach used by TFFR. As these losses are recognized over the next few years, we expect the negative margin to increase and the funded ratio to continue to decrease, in the absence of changes in the benefit/contribution structure of TFFR and in the absence of other experience gains or losses.

The investment trust funds are invested within their policy guidelines and adding additional investment return to their expected benchmark return objectives. We believe over the long term our financial position will continue to improve due to a prudent investment program and strategic planning.

### CONTACTING RIO FINANCIAL MANAGEMENT

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

Statements of Net Assets  
 Proprietary Fund  
 As of June 30, 2005 and 2004

	Internal Service Fund	
	2005	2004
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 257,239	\$ 132,738
Due from other state agency	102	28
Administrative fees receivable	2,086	2,086
Due from fiduciary funds	36,327	142,183
Total current assets	<u>295,754</u>	<u>277,035</u>
Noncurrent assets:		
Capital assets:		
Software (not in production)	1,005,000	410,000
Equipment & software (net of depreciation)	8,164	13,388
Total noncurrent assets	<u>1,013,164</u>	<u>423,388</u>
Total assets	<u>\$ 1,308,918</u>	<u>\$ 700,423</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	\$ 108,907	\$ 149,966
Accrued expenses	76,714	75,762
Capital leases payable	3,888	3,395
Due to fiduciary funds	53,576	2,453
Due to other state agencies	18,830	11,803
Total current liabilities	<u>261,915</u>	<u>243,379</u>
Noncurrent liabilities:		
Capital leases payable	5,662	9,550
Accrued annual leave	81,161	73,553
Total noncurrent liabilities	<u>86,823</u>	<u>83,103</u>
Total liabilities	<u>348,738</u>	<u>326,482</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	(1,386)	410,443
Unrestricted	961,566	(36,502)
Total net assets	<u>960,180</u>	<u>373,941</u>
Total net assets and liabilities	<u>\$ 1,308,918</u>	<u>\$ 700,423</u>

The accompanying notes are an integral part of these combined financial statements.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Statements of Revenues, Expenses and Changes in Fund Net Assets

## Proprietary Fund

For the Years Ended June 30, 2005 and 2004

	Internal Service Fund	
	2005	2004
Operating revenues:		
Charges for services	\$ 2,449,738	\$ 1,877,249
Miscellaneous	18,808	18,875
Total operating revenues	2,468,546	1,896,124
Operating expenses:		
Salaries and wages	906,336	860,257
Operating expenses	970,299	631,881
Depreciation	5,224	4,616
Total operating expenses	1,881,859	1,496,754
Operating income (loss)	586,687	399,370
Nonoperating revenue (expense):		
Investment income	1,107	581
Interest on capital lease	(1,555)	(1,416)
Total nonoperating revenue (expense)	(448)	(835)
Change in net assets	586,239	398,535
Total net assets - beginning of year	373,941	(24,594)
Total net assets - end of year	\$ 960,180	\$ 373,941

The accompanying notes are an integral part of these combined financial statements.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**Statements of Cash Flows  
Proprietary Fund

For the Years Ended June 30, 2005 and 2004

	Internal Service Fund	
	2005	2004
Cash flows from operating activities:		
Cash received from other state agencies	\$ 2,691,820	\$ 1,863,721
Cash received from external clients	7,549	7,508
Payments to vendors	(1,975,951)	(1,459,091)
Net cash provided (used) by operating activities	<u>723,418</u>	<u>412,138</u>
Cash flow from capital-related financing activities:		
Purchase of capital assets	(595,000)	(410,000)
Payments on capital lease	(4,951)	(3,061)
Net cash provided (used) by capital-related financing activities	<u>(599,951)</u>	<u>(413,061)</u>
Cash flow from investing activities:		
Investment Income	<u>1,034</u>	<u>572</u>
Net increase (decrease) in cash and equivalents	124,501	(351)
Cash and equivalents - beginning of year	<u>132,738</u>	<u>133,089</u>
Cash and equivalents - end of year	<u>\$ 257,239</u>	<u>\$ 132,738</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 586,687	\$ 399,370
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	5,224	4,616
Net change in assets and liabilities:		
Administrative fees receivable	-	3
Due from other funds	105,856	(88,196)
Accounts payable	(41,059)	80,174
Accrued expenses	8,560	14,419
Due to other funds	51,123	1,780
Due to other state agencies	<u>7,027</u>	<u>(28)</u>
Net cash provided (used) by operating activities	<u>\$ 723,418</u>	<u>\$ 412,138</u>
Noncash transactions:		
Acquisition of equipment under capital lease	<u>\$ -</u>	<u>\$ 14,590</u>

The accompanying notes are an integral part of these financial statements.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

Statements of Net Assets  
Fiduciary Funds  
As of June 30, 2005 and 2004

	Pension Trust		Investment Trust		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets:</b>						
Investments, at fair value						
Equities	\$ -	\$ -	\$ 21,862,661	\$ 19,412,080	\$ 21,862,661	\$ 19,412,080
Equity pool	1,004,754,159	900,981,977	1,183,113,382	1,107,851,093	2,187,867,541	2,008,833,070
Fixed income	-	-	27,986,767	27,658,250	27,986,767	27,658,250
Fixed income pool	272,428,219	245,500,877	1,470,951,035	1,248,149,485	1,743,379,254	1,493,650,362
Real estate pool	139,039,070	108,794,052	77,236,675	62,862,985	216,275,745	171,657,037
Private equity	62,572,727	60,138,622	61,224,580	59,398,786	123,797,307	119,537,408
Cash and cash pool	28,950,655	39,971,282	39,294,401	65,268,301	68,245,056	105,239,583
Total investments	1,507,744,830	1,355,386,810	2,881,669,501	2,590,600,980	4,389,414,331	3,945,987,790
Invested securities lending collateral	104,685,772	69,506,360	474,658,207	398,167,068	579,343,979	467,673,428
Receivables:						
Investment income	8,109,864	6,145,079	13,499,666	11,403,421	21,609,530	17,548,500
Contributions	7,403,583	6,354,683	-	-	7,403,583	6,354,683
Total receivables	15,513,447	12,499,762	13,499,666	11,403,421	29,013,113	23,903,183
Due from other funds	20,170	-	33,406	2,453	53,576	2,453
Cash and cash equivalents	8,648,006	8,378,563	-	-	8,648,006	8,378,563
Total assets	1,636,612,225	1,445,771,495	3,369,860,780	3,000,173,922	5,006,473,005	4,445,945,417
<b>Liabilities:</b>						
Accounts payable	-	-	-	-	-	-
Investment expenses payable	1,414,912	1,198,117	1,922,316	1,615,736	3,337,228	2,813,853
Securities lending collateral	104,685,772	69,506,360	474,658,207	398,167,068	579,343,979	467,673,428
Accrued expenses	284,129	253,408	-	-	284,129	253,408
Due to other funds	32,985	133,933	3,342	8,250	36,327	142,183
Total liabilities	106,417,798	71,091,818	476,583,865	399,791,054	583,001,663	470,882,872
<b>Net assets:</b>						
Held in trust for pension benefits (see Schedule of Funding Progress on page 44)	1,530,194,427	1,374,679,677	-	-	1,530,194,427	1,374,679,677
Held for external investment pool participants:						
Pension pool	-	-	1,615,959,085	1,417,160,799	1,615,959,085	1,417,160,799
Insurance pool	-	-	1,243,699,436	1,153,380,140	1,243,699,436	1,153,380,140
Held for individual investment account	-	-	33,618,394	29,841,929	33,618,394	29,841,929
Total net assets	\$ 1,530,194,427	\$ 1,374,679,677	\$ 2,893,276,915	\$ 2,600,382,868	\$ 4,423,471,342	\$ 3,975,062,545
Each participant unit is valued at \$1.00						
Participant units outstanding			2,893,276,915	2,600,382,868	2,893,276,915	2,600,382,868

The accompanying notes are an integral part of this financial statement.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Statements of Changes in Net Assets

## Fiduciary Funds

For the Years Ended June 30, 2005 and 2004

	Pension Trust		Investment Trust		Total	
	2005	2004	2005	2004	2005	2004
Additions:						
Contributions:						
Employer contributions	\$ 30,388,265	\$ 29,635,584	\$ -	\$ -	\$ 30,388,265	\$ 29,635,584
Member contributions	30,388,650	29,635,970	-	-	30,388,650	29,635,970
Purchased service credit	3,292,441	4,383,456	-	-	3,292,441	4,383,456
Interest and penalties	3,525	352	-	-	3,525	352
Total contributions	64,072,881	63,655,362	-	-	64,072,881	63,655,362
Investment income:						
Net increase (decrease) in fair value of investments	147,669,725	188,732,952	220,293,986	232,942,174	367,963,711	421,675,126
Interest, dividends and other income	38,900,553	36,083,028	75,282,138	74,938,084	114,182,691	111,021,112
	186,570,278	224,815,980	295,576,124	307,880,258	482,146,402	532,696,238
Less investment expenses	6,137,707	4,827,788	8,349,737	7,077,592	14,487,444	11,905,380
Net investment income	180,432,571	219,988,192	287,226,387	300,802,666	467,658,958	520,790,858
Securities lending activity:						
Securities lending income	1,863,404	754,559	9,019,381	2,980,052	10,882,785	3,734,611
Less securities lending expenses	1,535,720	499,972	8,223,043	2,390,792	9,758,763	2,890,764
Net securities lending income	327,684	254,587	796,338	589,260	1,124,022	843,847
Total additions	244,833,136	283,898,141	288,022,725	301,391,926	532,855,861	585,290,067
Deductions:						
Benefits paid to participants	84,125,369	77,112,918	-	-	84,125,369	77,112,918
Partial lump-sum distributions	372,761	40,136	-	-	372,761	40,136
Refunds	2,733,407	5,800,100	-	-	2,733,407	5,800,100
Administrative charges	2,086,849	1,513,788	-	-	2,086,849	1,513,788
Total deductions	89,318,386	84,466,942	-	-	89,318,386	84,466,942
Net increase (decrease) in net assets resulting from operations	155,514,750	199,431,199	288,022,725	301,391,926	443,537,475	500,823,125
Unit transactions at net asset value of \$1.00 per unit:						
Purchase of units	-	-	168,759,897	156,663,183	168,759,897	156,663,183
Redemption of units	-	-	(163,888,573)	(161,165,187)	(163,888,573)	(161,165,187)
Net increase (decrease) in assets and units resulting from unit transactions	-	-	4,871,324	(4,502,004)	4,871,324	(4,502,004)
Total increase (decrease) in net assets	155,514,750	199,431,199	292,894,049	296,889,922	448,408,799	496,321,121
Net assets:						
Beginning of year	1,374,679,677	1,175,248,478	2,600,382,866	2,303,492,944	3,975,062,543	3,478,741,422
End of Year	\$ 1,530,194,427	\$ 1,374,679,677	\$ 2,893,276,915	\$ 2,600,382,866	\$ 4,423,471,342	\$ 3,975,062,543

The accompanying notes are an integral part of this financial statement.

# **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## **Notes to Combined Financial Statements**

**June 30, 2005**

### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A) Reporting Entity**

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of RIO to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on RIO.

Based upon these criteria, there are no component units to be included within RIO as a reporting entity and RIO is part of the State of North Dakota as a reporting entity.

#### **B) Fund Financial Statement**

RIO's only nonfiduciary activity is the administration and management of the agency. RIO is a business-type activity that charges fees on a cost-reimbursement basis and is shown in the separate proprietary fund financial statements.

All other activities of RIO are pension and investment trust funds and are shown in the separate fiduciary fund financial statements.

#### **C) Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of RIO are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the proprietary and fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements - Continued**

**June 30, 2005**

#### **NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

##### **Proprietary Fund**

An internal service fund is used to account for services provided by RIO to TFFR and SIB on a cost-reimbursement basis. RIO allocates those administrative expenses to each governmental unit or fund whose investments are managed by SIB.

##### **Fiduciary Fund**

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, and Bismarck City Employees and Police pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Post War, Veterans Cemetery, North Dakota Association of Counties Fund, North Dakota Association of Counties Program Savings Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, and City of Fargo FargoDome Permanent Fund are managed in the insurance pool.

PERS Retiree Health investments are managed by SIB in an individual investment account. RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery, Risk Management and Risk Management Workers Comp.

RIO follows the pronouncement of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Proprietary Funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows.



**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Notes to Combined Financial Statements - Continued****June 30, 2005****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges for services to the pension and investment trust funds. Operating expenses include salaries and wages, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

**D) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

**E) Budgetary Process**

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

#### F) Capital Assets and Depreciation

Capital asset expenditures greater than \$5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	<u>Years</u>
Office equipment	5
Furniture and fixtures	5

#### G) Investments

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

The pension fund belonging to TFFR and investment trust funds attributable to the Bismarck City Employee Pension Plan, the Bismarck City Police Pension Plan, Job Service of North Dakota, and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Notes to Combined Financial Statements - Continued****June 30, 2005****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****Pooled Investments**

Several agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at \$1.00 per unit.

**Investment Valuation and Income Recognition**

Investments are recorded at fair value determined by reference to published market data for publicly traded securities and through the use of independent valuation services and appraisals for other investments. The net increase in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

**Securities Lending**

GASB Statement No. 28, *“Accounting and Financial Reporting for Securities Lending Transactions,”* establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

## NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

### Notes to Combined Financial Statements – Continued

June 30, 2005

#### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The State Investment Board has authorized the use of securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans at June 30, 2005 was 116 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 28 days as of this statement date. Cash collateral may also be invested separately in “*term loans*”, in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client’s securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust’s responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. Northern Trust indemnifies RIO if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay income distributions on them.

For securities loaned at year end, SIB has no credit risk exposure to borrowers because the amounts SIB owes the borrowers exceed the amounts the borrowers owe SIB.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Derivative Securities

SIB's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

#### H) Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to \$81,959 at June 30, 2005. The current portion of accrued leave amounted to \$798 at June 30, 2005, and is included in accrued expenses of the Internal Service Fund in the statement of net assets. Changes in accrued leave for the year ended June 30, 2005 consisted of the following:

Balance July 1, 2004	\$75,113
Additions	6,846
Deductions	-
Balance June 30, 2005	<u>\$81,959</u>

## NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

### Notes to Combined Financial Statements - Continued

June 30, 2005

#### NOTE 2 NEW ACCOUNTING PRONOUNCEMENT

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, was implemented for the fiscal year ended June 30, 2005. As a result, the disclosures related to deposit and investment risks were changed. The changes are reflected in Notes 3 and 4.

#### NOTE 3 CASH AND CASH EQUIVALENTS

##### **Custodial Credit Risk**

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “[a]ll state funds...must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

##### **Internal Service Fund**

Cash and cash equivalents are short-term, highly liquid investments having original maturities of three months or less. Cash and cash equivalents of the Internal Service Fund at June 30, 2005 include \$180,888 of deposits at the Bank of North Dakota of interest-bearing internal service fund operating cash under the control of the State Treasurer’s Office as required by law and \$76,350 in a money market account. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10. Due to the nature of RIO’s accounts, there were no checks outstanding or deposits not yet processed; thus, the carrying amounts are equal to the bank balance.

##### **Pension Trust Fund**

Cash and cash equivalents held by the Pension Trust Fund at June 30, 2005 were deposited in the Bank of North Dakota. At June 30, 2005, the carrying amount of TFFR’s deposits was \$8,648,005, and the bank balance was \$8,659,417. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

##### **Investment Trust Funds**

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of \$85,381,090 at June 30, 2005. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 4 INVESTMENTS

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The “prudent investor rule” means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to permanent disposition of funds, considering probably safety of capital as well as probably income. The retirement funds belonging to the teachers’ fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds’ investment goals and objectives.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2005 the following table shows the investments by investment type and maturity (expressed in thousands).

	<u>Market Value</u>	<u>Less than 1 Year</u>	<u>1-6 Years</u>	<u>6-10 Years</u>	<u>10+ Years</u>
Asset Backed Securities	\$ 16,798	\$ 1,500	\$ 2,806	\$ 191	\$ 12,301
Commercial Mortgage-Backed	3,927	-	493	-	3,434
Corporate Bonds	549,462	4,374	194,225	212,800	138,063
Corporate Convertible Bonds	33,232	737	9,201	784	22,510
Government Agencies	88,628	2,461	61,846	16,714	7,607
Government Bonds	254,663	6,520	156,191	34,287	57,665
Government Mortgage-Backed	24,993	1	188	112	24,692
Index Linked Government Bonds	157,379	-	68,674	48,898	39,807
Municipal/Provincial Bonds	9,752	875	6,052	1,495	1,330
Non-Government Backed CMOs	11,111	-	900	16	10,195
Pooled Investments	283,445	-	64,272	82,944	136,229
Total Debt Securities	<u>\$ 1,433,390</u>	<u>\$ 16,468</u>	<u>\$ 564,848</u>	<u>\$ 398,241</u>	<u>\$ 453,833</u>

In the table above, the market values of our inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 4 INVESTMENTS – Continued

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions, which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at \$924,000, and POs valued at \$8,413,000 at fiscal year end. The SIB has no policy regarding IO or PO strips.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following table presents the SIB's ratings as of June 30, 2005 (expressed in thousands).

S&P Credit Rating	Total Market Value	Asset Backed Securities	Commercial Mortgage Backed	Corporate Bonds	Corporate Convertible Bonds	Gov't Agencies	Gov't Bonds	Index Linked Gov't Bonds	Municipal/ Provincial Bonds	Non-Gov't Backed CMOs	Pooled Investments
AAA	\$ 636,607	\$ 8,615	\$ 3,778	\$ 12,708	\$ 938	\$ 41,755	\$ 208,479	\$ 142,670	\$ 6,052	\$ 11,111	\$ 200,501
AA+	73,145	-	-	172	-	-	1,489	-	-	-	71,484
AA	6,294	39	-	3,981	-	-	-	-	2,274	-	-
AA-	9,649	-	-	9,396	-	-	253	-	-	-	-
A+	35,092	-	-	33,070	1,768	254	-	-	-	-	-
A	55,152	-	-	47,019	854	1,129	6,150	-	-	-	-
A-	50,421	317	-	41,961	3,012	-	5,131	-	-	-	-
BBB+	88,729	269	-	80,160	3,300	-	-	-	-	-	5,000
BBB	86,187	642	-	70,960	2,509	-	11,526	-	550	-	-
BBB-	55,093	-	-	50,269	1,642	-	3,182	-	-	-	-
BB+	44,431	1,059	-	40,750	2,622	-	-	-	-	-	-
BB	25,114	244	-	24,175	421	-	274	-	-	-	-
BB-	36,856	457	-	26,537	1,446	-	1,956	-	-	-	6,460
B+	21,339	-	-	20,166	1,173	-	-	-	-	-	-
B	26,245	266	-	24,311	1,668	-	-	-	-	-	-
B-	41,157	2,454	-	37,193	1,510	-	-	-	-	-	-
CCC+	7,922	-	-	7,538	384	-	-	-	-	-	-
CCC	6,201	205	-	5,226	770	-	-	-	-	-	-
CCC-	4,446	38	-	4,408	-	-	-	-	-	-	-
CC	88	-	-	3	85	-	-	-	-	-	-
C	325	-	-	325	-	-	-	-	-	-	-
NR	44,334	2,193	149	9,134	9,130	-	8,143	14,709	876	-	-
Total Credit Risk of Debt Securities	1,354,827	\$ 16,798	\$ 3,927	\$ 549,462	\$ 33,232	\$ 43,138	\$ 246,583	\$ 157,379	\$ 9,752	\$ 11,111	\$ 283,445

US Gov't & Agencies: 78,563

Total Debt Securities: \$ 1,433,390



# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 4 INVESTMENTS – Continued

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following table (expressed in thousands).

Currency	Short-Term	Debt	Equity	Total
Australian dollar	\$ (12,500)	\$ 9,037	\$ 15,013	\$ 11,550
Brazilian real	3,804	-	-	3,804
British pound sterling	(22,964)	3,143	91,765	71,944
Canadian dollar	(5,338)	10,104	6,214	10,980
Colombian peso	-	-	-	-
Danish krone	(840)	-	3,439	2,599
Euro	(68,112)	11,021	161,217	104,126
Hong Kong dollar	(1,778)	-	7,227	5,449
Japanese yen	(33,450)	-	101,818	68,368
Mexican peso	(62)	3,309	-	3,247
New Zealand dollar	(2,681)	3,006	-	325
Norwegian krone	(1,320)	-	4,577	3,257
Polish zloty	-	5,302	-	5,302
Singapore dollar	(1,734)	4,189	3,100	5,555
South African rand	-	-	249	249
Swedish krona	(2,122)	-	10,501	8,379
Swiss franc	(17,292)	-	37,093	19,801
Thai baht	1,397	-	-	1,397
International commingled funds (various currencies)	-	71,484	293,489	364,973
Total international investment securities	<u>\$ (164,992)</u>	<u>\$ 120,595</u>	<u>\$ 735,702</u>	<u>\$ 691,305</u>

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

**June 30, 2005**

### NOTE 5 CAPITAL ASSETS

The following is a summary of Internal Service Fund capital assets:

	7/1/2004	Additions	Retirements	6/30/2005
Office equipment	\$ 27,996	\$ -	\$ -	\$ 27,996
Less accumulated depreciation	(14,608)	(5,224)	-	(19,832)
	<u>\$ 13,388</u>			<u>\$ 8,164</u>
Software (not in production)	<u>\$ 410,000</u>	<u>\$ 595,000</u>	<u>\$ -</u>	<u>\$ 1,005,000</u>

### NOTE 6 INTERFUND AND STATE AGENCY TRANSACTIONS

#### Due To / Due From Fiduciary Funds

Amounts due to and due from fiduciary funds are as follows as of June 30, 2005:

	Due to Internal Service Fund	Due from Internal Service Fund
Investment Trust Funds:		
PERS	\$ -	\$ 18,797
Workforce Safety and Insurance	-	12,926
State Fire and Tornado	-	359
State Bonding	-	380
Petroleum Tank Release Compensation Fund	-	178
Insurance Regulatory Trust	-	49
Health Care Trust	-	360
Veterans Post War	250	-
Veterans Cemetery	29	-
Risk Management	-	88
Risk Management Workers Comp	-	269
PERS Group Insurance	250	-
PERS Retiree Health	812	-
Job Service of North Dakota	2,001	-
Total Investment Trust	<u>3,342</u>	<u>33,406</u>
Pension Trust Fund:		
TFFR	<u>32,985</u>	<u>20,170</u>
Total due to / due from internal service fund	<u>\$36,327</u>	<u>\$ 53,576</u>

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 6 INTERFUND AND STATE AGENCY TRANSACTIONS - Continued

#### Due To / Due From Other State Agencies

Amounts due to and due from other state agencies are as follows as of June 30, 2005:

#### Due To:

Information Technology Department	\$17,492
Attorney General's Office	492
Central Supply	93
Central Duplicating	<u>753</u>
Total due to other state agencies	<u>\$18,830</u>

#### Due From:

Bank of North Dakota	<u>\$ 102</u>
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These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

### NOTE 7 OPERATING LEASES

RIO leases office space under an operating lease, which expires on June 30, 2005. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled \$70,996 for fiscal 2005. RIO entered into a new lease for office space effective July 1, 2005. Minimum payments under this lease for fiscal 2006 and 2007 are \$70,671 per year.

### NOTE 8 CAPITAL LEASES

RIO is obligated under a lease accounted for as a capital lease in its internal service fund. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense.

The schedule below lists the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2005:

<u>June 30,</u>	<u>Amount</u>
2006	4,951
2007	4,951
2008	<u>1,238</u>
Total minimum lease payments	\$ 11,140
Less: Amount Representing Interest	<u>(1,590)</u>
Present value of future minimum lease payments	<u>\$ 9,550</u>

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

**June 30, 2005**

### NOTE 9 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2005 is summarized as follows:

	Beginning Balance 7/1/2004	Additions	Reductions	Ending Balance 6/30/2005	Amounts Due Within One Year
Capital Leases Payable	\$ 12,945	\$ -	\$ (3,395)	\$ 9,550	\$ 3,888
Accrued Annual Leave	75,113	6,846	-	81,959	798
	<u>\$ 88,058</u>	<u>\$ 6,846</u>	<u>\$ (3,395)</u>	<u>\$ 91,509</u>	<u>\$ 4,686</u>

The SIB internal service fund generally liquidates the above liabilities.

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

#### General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

#### Membership

As of June 30, 2005 and 2004, the number of participating employer units was 260 and 266 consisting of the following:

	<u>2005</u>	<u>2004</u>
Public School Districts	207	211
County Superintendents	15	15
Special Education Units	18	19
Vocational Education Units	4	4
Other	<u>16</u>	<u>17</u>
Total	<u>260</u>	<u>266</u>

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Combined Financial Statements - Continued

June 30, 2005

### NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

TFFR's membership consisted of the following:

	<u>2005</u>	<u>2004</u>
Retirees and beneficiaries currently receiving benefits	5,586	5,373
Terminated employees - vested	1,377	1,346
Terminated employees - nonvested	<u>168</u>	<u>175</u>
Total	<u>7,131</u>	<u>6,894</u>
Current employees:		
Vested	8,584	8,658
Nonvested	<u>1,217</u>	<u>1,168</u>
Total	<u>9,801</u>	<u>9,826</u>

#### Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 9.29%, but at a minimum is not less than the actuarially determined percentage required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

#### Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the year ended June 30, 2005, TFFR had net realized gains of \$80,139,858.

#### Investment Expenses

Investment expenses consist of fees charged by RIO for investment managers and investment-related service fees from The Northern Trust Company, the Bank of North Dakota, and certain other investment advisors. All TFFR expenses are paid out of TFFR assets.

#### Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% of the teacher's salary.

A vested member who terminates covered employment may elect a refund of member contributions paid or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of member contributions paid unless

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements - Continued**

**June 30, 2005**

#### **NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued**

that member submits a valid waiver of this refund to the Board of Trustees of TFFR. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

##### **Pension Benefits**

A member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. All members may be eligible for legislative increases in monthly benefits.

##### **Survivor and Disability Benefits**

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **Notes to Combined Financial Statements - Continued**

**June 30, 2005**

#### **NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.12% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2005, 2004, and 2003, were \$62,397, \$59,134, and \$58,218, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

#### **NOTE 12 RELATED PARTIES**

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

#### **NOTE 13 COMMITMENTS**

RIO has entered into two contracts to implement a new pension administration software system for the North Dakota Teachers' Fund For Retirement. The contracts commenced March 1, 2004 and terminate October 31, 2005. The approximate costs under these contracts for implementation of the new software is \$1,756,375. RIO has budgeted \$2.0 million for the implementation of this system. Other costs of the system not under contract include support from Information Technology Department and other miscellaneous costs totaling \$243,625. Fees paid under these contracts total \$1,351,602 as of June 30, 2005.

# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Required Supplementary Information

June 30, 2005

### Schedule of Funding Progress North Dakota Teachers' Fund for Retirement (Dollars in Millions)

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2000	\$1,308.5	\$1,287.9	\$ (20.6)	101.6%	\$323.0	(6.4)%
2001	1,414.7	1,467.7	53.0	96.4	342.2	15.5
2002	1,443.5	1,575.8	132.3	91.6	348.1	38.0
2003	1,438.4	1,690.3	251.9	85.1	367.9	68.5
2004	1,445.6	1,800.4	354.8	80.3	376.5	94.2
2005	1,469.7	1,965.2	495.5	74.8	386.6	128.2

### Schedule of Employer Contributions North Dakota Teachers' Fund for Retirement

Fiscal Year	Annual Required Contribution	Percentage Contributed
2000	\$ 25,527,734	100.0%
2001	26,289,206	100.0%
2002	27,243,542	100.0%
2003	28,850,725	100.0%
2004	34,186,080	86.7%
2005	44,471,740	68.3%

See notes to required supplementary information.



# NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

## Notes to Required Supplementary Information

June 30, 2005

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

<b>Valuation Date:</b>	July 1, 2005
<b>Actuarial Cost Method:</b>	Entry age normal
<b>Amortization Method:</b>	Level percentage of payroll
<b>Amortization Period for GASB 25 ARC*:</b>	30-year open period
<b>Asset Valuation Method:</b>	5 year smoothed market
<b>Actuarial Assumptions:</b>	
Investment Rate of Return (**)	8.00%
Projected Salary Increases (**)	4.50% to 14.00%
Cost-of-Living Adjustments	None

(\*) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, and (b) the 7.75% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

(\*\*) Includes inflation at 3.00%.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**  
Combining Statement of Net Assets – Investment Trust Funds  
Fiduciary Funds  
As of June 30, 2005  
(With Comparative Totals for 2004)

	Pension Pool Participants				Insurance Pool Participants					
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Health Care Trust Fund
Assets:										
Investments										
Equities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity pool	830,282,298	20,245,546	9,810,868	32,471,364	269,463,978	8,109,431	928,706	3,296,750	897,152	-
Fixed income	-	-	-	-	-	-	-	-	-	16,508,000
Fixed income pool	489,555,414	17,963,910	7,064,178	48,406,756	879,079,706	12,323,178	1,406,932	4,551,615	1,014,594	-
Real estate pool	75,144,363	1,189,978	902,334	-	-	-	-	-	-	-
Private equity	60,352,473	371,022	501,085	-	-	-	-	-	-	-
Cash and cash pool	17,857,934	497,608	197,212	451,414	11,520,586	2,293,743	254,366	1,349,283	1,058,689	1,849,068
Total investments	1,473,192,482	40,268,064	18,475,677	81,329,534	1,160,064,270	22,726,352	2,590,004	9,197,648	2,970,435	18,357,068
Invested sec lending collateral	121,527,394	4,083,485	1,631,348	10,564,632	325,421,591	4,883,718	562,973	1,831,895	421,996	-
Investment income receivable	3,631,806	64,198	39,883	170,656	8,763,879	133,558	30,157	62,709	9,024	224,136
Due from other funds	18,797	-	-	-	12,926	359	380	178	49	360
Total assets	1,598,370,479	44,415,747	20,146,908	92,064,822	1,494,262,666	27,743,987	3,183,514	11,092,430	3,401,504	18,581,564
Liabilities:										
Investment expenses payable	1,141,451	26,825	14,223	47,512	643,579	14,592	1,842	5,737	1,417	-
Securities lending collateral	121,527,394	4,083,485	1,631,348	10,564,632	325,421,591	4,883,718	562,973	1,831,895	421,996	-
Due to other funds	-	-	-	2,001	-	-	-	-	-	-
Total liabilities	122,668,845	4,110,310	1,645,571	10,614,145	326,065,170	4,898,310	564,815	1,837,632	423,413	-
Net assets held in trust for external investment pool participants	<u>\$1,475,701,634</u>	<u>\$ 40,305,437</u>	<u>\$18,501,337</u>	<u>\$81,450,677</u>	<u>\$1,168,197,496</u>	<u>\$ 22,845,677</u>	<u>\$ 2,618,699</u>	<u>\$ 9,254,798</u>	<u>\$ 2,978,091</u>	<u>\$18,581,564</u>
Each participant unit is valued at \$1.00										
Participant units outstanding	<u>1,475,701,634</u>	<u>40,305,437</u>	<u>18,501,337</u>	<u>81,450,677</u>	<u>1,168,197,496</u>	<u>22,845,677</u>	<u>2,618,699</u>	<u>9,254,798</u>	<u>2,978,091</u>	<u>18,581,564</u>

Insurance Pool Participants									Individual Investment Acct.	Totals	
Veterans Cemetery	Veterans Post War	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2005	2004
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$21,862,661	\$ 21,862,661	\$ 19,412,080
-	1,584,420	716,254	1,060,054	172,169	181,278	-	213,585	3,679,529	-	1,183,113,382	1,107,851,093
-	-	-	-	-	-	-	-	-	11,478,767	27,986,767	27,658,250
-	2,019,593	1,469,458	1,696,987	187,700	198,212	-	455,597	3,557,205	-	1,470,951,035	1,248,149,485
-	-	-	-	-	-	-	-	-	-	77,236,675	62,862,985
-	-	-	-	-	-	-	-	-	-	61,224,580	59,398,786
86,034	137	203,813	141,995	24,922	23,191	1,370,671	40,910	72,825	-	39,294,401	65,268,301
86,034	3,604,150	2,389,525	2,899,036	384,791	402,681	1,370,671	710,092	7,309,559	33,341,428	2,881,669,501	2,590,600,980
-	831,130	558,561	639,290	76,749	80,924	-	174,122	1,368,399	-	474,658,207	398,167,068
-	4,431	50,088	8,487	1,125	851	-	1,575	11,525	291,578	13,499,666	11,403,421
-	-	88	269	-	-	-	-	-	-	33,406	2,453
86,034	4,439,711	2,998,262	3,547,082	462,665	484,456	1,370,671	885,789	8,689,483	33,633,006	3,369,860,780	3,000,173,922
-	1,555	1,425	1,889	507	523	26	705	4,708	13,800	1,922,316	1,615,736
-	831,130	558,561	639,290	76,749	80,924	-	174,122	1,368,399	-	474,658,207	398,167,068
29	250	-	-	-	-	250	-	-	812	3,342	8,250
29	832,935	559,986	641,179	77,256	81,447	276	174,827	1,373,107	14,612	476,583,865	399,791,054
<u>\$ 86,005</u>	<u>\$ 3,606,776</u>	<u>\$ 2,438,276</u>	<u>\$ 2,905,903</u>	<u>\$ 385,409</u>	<u>\$ 403,009</u>	<u>\$ 1,370,395</u>	<u>\$ 710,962</u>	<u>\$ 7,316,376</u>	<u>\$ 33,618,394</u>	<u>\$ 2,893,276,915</u>	<u>\$ 2,600,382,868</u>
<u>86,005</u>	<u>3,606,776</u>	<u>2,438,276</u>	<u>2,905,903</u>	<u>385,409</u>	<u>403,009</u>	<u>1,370,395</u>	<u>710,962</u>	<u>7,316,376</u>	<u>33,618,394</u>	<u>2,893,276,915</u>	<u>2,600,382,868</u>

The accompanying notes are an integral part of this financial statement.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**  
Combining Statement of Changes in Net Assets – Investment Trust Funds  
Fiduciary Funds  
For the Year Ended June 30, 2005  
(With Comparative Totals for 2004)

	Pension Pool Participants				Insurance Pool Participants					
	Public Employees Retirement System	City of Bismarck Employee Pension Plan	City of Bismarck Police Pension Plan	Job Service of North Dakota	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Health Care Trust Fund
Investment income:										
Net increase/(decrease) in fair value of investments	\$ 154,870,263	\$ 3,332,675	\$ 1,519,817	\$ 9,452,746	\$ 47,067,853	\$ 857,407	\$ 130,648	\$ 317,187	\$ 77,694	\$ -
Interest, dividends and other income	34,148,529	649,709	346,503	1,682,114	34,684,534	730,323	123,768	289,064	54,367	1,075,658
	189,018,792	3,982,384	1,866,320	11,134,860	81,752,387	1,587,730	254,416	606,251	132,061	1,075,658
Less investment expenses	5,316,187	108,273	55,815	268,358	2,393,638	60,054	10,057	23,799	4,699	2,370
	183,702,605	3,874,111	1,810,505	10,866,502	79,358,749	1,527,676	244,359	582,452	127,362	1,073,288
Net investment income										
Securities lending activity:										
Securities lending income	2,276,477	61,305	25,351	205,406	6,212,399	103,912	17,784	39,252	5,590	-
Securities lending expenses	2,016,404	56,257	22,978	187,850	5,723,329	93,764	16,041	35,347	4,980	-
	260,073	5,048	2,373	17,556	489,070	10,148	1,743	3,905	610	-
Net securities lending income										
Net increase/(decrease) in net assets resulting from operations	183,962,678	3,879,159	1,812,878	10,884,058	79,847,819	1,537,824	246,102	586,357	127,972	1,073,288
Unit transactions at net asset value of \$1 per unit:										
Purchase of units	-	10,071,655	3,880,783	-	21,000,000	3,250,000	-	135,000	2,025,000	10,000,000
Redemption of units	(13,000,000)	-	-	(2,692,923)	(11,000,000)	(1,550,000)	(1,400,000)	(425,000)	(1,865,000)	(17,990,650)
	(13,000,000)	10,071,655	3,880,783	(2,692,923)	10,000,000	1,700,000	(1,400,000)	(290,000)	160,000	(7,990,650)
Net increase (decrease) in net assets and units resulting from unit transactions										
Total increase (decrease) in net assets	170,962,678	13,950,814	5,693,661	8,191,135	89,847,819	3,237,824	(1,153,898)	296,357	287,972	(6,917,362)
Net assets:										
Beginning of year	1,304,738,956	26,354,623	12,807,676	73,259,542	1,078,349,677	19,607,853	3,772,597	8,958,441	2,690,119	25,498,926
End of year	\$1,475,701,634	\$ 40,305,437	\$18,501,337	\$ 81,450,677	\$1,168,197,496	\$ 22,845,677	\$ 2,618,699	\$ 9,254,798	\$ 2,978,091	\$18,581,564

Insurance Pool Participants									Individual Investment Acct.	Totals	
Veterans Cemetery	Veterans Post War	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2005	2004
\$ -	\$ 279,146	\$ 144,646	\$ 68,035	\$ 20,629	\$ 18,684	\$ -	\$ 28,817	\$ 274,460	\$ 1,833,279	\$ 220,293,986	\$ 232,942,174
1,956	57,769	79,971	64,068	10,059	10,661	135,190	24,078	192,967	920,850	75,282,138	74,938,084
1,956	336,915	224,617	132,103	30,688	29,345	135,190	52,895	467,427	2,754,129	295,576,124	307,880,258
13	7,310	5,961	6,125	1,941	1,996	1,064	2,769	17,144	62,164	8,349,737	7,077,592
1,943	329,605	218,656	125,978	28,747	27,349	134,126	50,126	450,283	2,691,965	287,226,387	300,802,666
-	16,191	11,825	9,285	1,458	1,546	-	3,631	27,969	-	9,019,381	2,980,052
-	15,107	10,825	8,538	1,314	1,394	-	3,282	25,633	-	8,223,043	2,390,792
-	1,084	1,000	747	144	152	-	349	2,336	-	796,338	589,260
1,943	330,689	219,656	126,725	28,891	27,501	134,126	50,475	452,619	2,691,965	288,022,725	301,391,926
12,959	2,000,000	-	2,000,000	50,000	50,000	112,200,000	-	1,000,000	1,084,500	168,759,897	156,663,183
-	(65,000)	(750,000)	(1,900,000)	-	-	(111,250,000)	-	-	-	(163,888,573)	(161,165,187)
12,959	1,935,000	(750,000)	100,000	50,000	50,000	950,000	-	1,000,000	1,084,500	4,871,324	(4,502,004)
14,902	2,265,689	(530,344)	226,725	78,891	77,501	1,084,126	50,475	1,452,619	3,776,465	292,894,049	296,889,922
71,103	1,341,087	2,968,620	2,679,178	306,518	325,508	286,269	660,487	5,863,757	29,841,929	2,600,382,866	2,303,492,944
\$ 86,005	\$ 3,606,776	\$ 2,438,276	\$ 2,905,903	\$ 385,409	\$ 403,009	\$ 1,370,395	\$ 710,962	\$ 7,316,376	\$ 33,618,394	\$ 2,893,276,915	\$ 2,600,382,866

The accompanying notes are an integral part of this financial statement.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Internal Service Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2005 and 2004

	2005	2004
Salaries and wages:		
Salaries and wages	\$693,545	\$655,710
Fringe benefits	212,791	204,547
Total salaries and wages	906,336	860,257
Operating expenses:		
Information services	227,833	86,315
Intergovernmental services	7,798	3,265
Professional services	249,545	249,872
Rent of building space	70,996	70,961
Lease/rent of office equipment	287	1,693
Mailing services and postage	35,983	33,384
Travel and lodging	27,183	42,566
Printing	23,187	14,549
Office supplies	11,249	6,077
Professional development	14,356	12,424
Outside services	10,411	10,665
Small office equipment expense	6,311	60
Miscellaneous fees	3,537	4,061
Resource and reference materials	3,946	1,469
Service contracts - office equipment	150	331
IT contractual services	271,766	69,851
Repairs - office equipment	212	230
Insurance	2,584	2,572
Non-capitalized equipment purchases	2,965	21,536
Total operating expenses	970,299	631,881
Depreciation	5,224	4,616
Capital Assets	595,000	410,000
Capital lease payments - principal	3,396	1,645
Capital lease payments - interest	1,555	1,416
Less - nonappropriated items:		
Professional fees	249,545	249,872
Depreciation	5,224	4,616
Accrual adjustments to employee benefits	6,845	8,400
Total nonappropriated items	261,614	262,888
Total appropriated administrative expenditures	\$ 2,220,196	\$ 1,646,927

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Pension Trust Fund – Schedule of Administrative Expenses

For the Years Ended June 30, 2005 and 2004

	2005	2004
Salaries and wages:		
Salaries and wages	\$475,850	\$442,302
Fringe benefits	147,458	138,277
Total salaries and wages	<u>623,308</u>	<u>580,579</u>
Operating expenses:		
Information services	221,264	79,512
Intergovernmental services	5,848	2,449
Professional services	192,002	189,618
Rent of building space	50,087	50,052
Lease/rent of office equipment	2,709	2,493
Mailing services and postage	33,275	31,180
Travel and lodging	24,472	35,969
Printing	21,604	13,332
Office supplies	9,206	5,012
Professional development	13,606	11,290
Outside services	8,400	8,473
Small office equipment expense	5,132	30
Miscellaneous fees	2,334	2,931
Resource and reference materials	3,068	760
Service contracts - office equipment	112	239
IT contractual services	271,599	69,514
Repairs - office equipment	160	208
Insurance	1,938	1,800
Non-capitalized equipment purchases	2,347	18,553
Total operating expenses	<u>869,163</u>	<u>523,415</u>
Capital assets	<u>595,000</u>	<u>410,000</u>
Less: charges for services reduced by income	<u>(622)</u>	<u>(206)</u>
Total administrative expenditures	<u><u>\$ 2,086,849</u></u>	<u><u>\$ 1,513,788</u></u>

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## Schedule of Appropriations – Budget Basis

## Internal Service Fund

July 1, 2003 to June 30, 2005 Biennium

	Approved 2003-2005 Appropriation	Adjusted 2003-2005 Appropriation	Fiscal 2004 Expenses	Fiscal 2005 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	\$ 1,774,885	\$ 1,774,885	\$ 851,857	\$ 899,491	\$ 23,537
Operating expenses	986,444	986,444	308,515	320,959	356,970
Contracted services	2,000,000	2,000,000	486,555	999,746	513,699
Contingency	82,000	82,000	-	-	82,000
Total	<u>\$ 4,843,329</u>	<u>\$ 4,843,329</u>	<u>\$ 1,646,927</u>	<u>\$ 2,220,196</u>	<u>\$ 976,206</u>

**NOTE:** Only those expenses for which there are appropriations are included in this statement.Reconciliation of Administrative Expenses  
to Appropriated Expenditures

	2005	2004
Administrative expenses as reflected in the financial statements	\$1,881,859	\$1,496,754
Plus:		
Capital assets	595,000	410,000
Capital lease payments - principal	3,396	1,645
Capital lease payments - interest	1,555	1,416
Less:		
Professional fees	(249,545)	(249,872)
Depreciation expense	(5,224)	(4,616)
Changes in annual leave and FICA payments	(6,845)	(8,400)
Total appropriated expenses	<u>\$2,220,196</u>	<u>\$1,646,927</u>



**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE****Pension Trust Fund - Schedule of Investment Expenses****For the Years Ended June 30, 2005 and 2004**

	2005	2004
Investment managers' fees:		
Domestic large cap equity managers	\$ 1,048,750	\$ 1,020,824
Domestic small cap equity managers	1,162,583	1,098,160
International equity managers	1,526,932	1,373,251
Emerging markets equity managers	501,406	444,565
Domestic fixed income managers	325,746	272,028
High yield fixed income managers	496,671	223,887
International fixed income managers	304,026	263,672
Real estate managers	1,170,521	1,131,313
Private equity managers	4,195,757	3,008,399
Cash & equivalents managers	55,827	49,022
Total investment managers' fees	10,788,219	8,885,121
Custodian fees	384,777	292,937
Investment consultant fees	86,892	94,187
State Investment Board admin fees	128,690	127,235
Total investment expenses	<u>\$ 11,388,578</u>	<u>\$ 9,399,480</u>
Securities lending fees	<u>\$ 1,535,720</u>	<u>\$ 499,972</u>

**Reconciliation of Investment Expenses to Financial Statements**

	2005	2004
Investment expenses as reflected in the financial statements	\$ 6,137,707	\$ 4,827,788
Plus investment management fees included in investment income		
Domestic large cap equity	1,962	1,646
Domestic small cap equity	749,963	714,201
International equity	19,543	34,238
Emerging markets equity	501,406	444,565
Domestic fixed income	-	145,640
Real estate	71,166	524,599
Private equity	3,851,004	2,657,781
Cash equivalents	55,827	49,022
Investment expenses per schedule	<u>\$ 11,388,578</u>	<u>\$ 9,399,480</u>

# **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

## **Pension Trust Fund - Schedule of Consultant Expenses**

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Actuary fees:		
Gabriel, Roeder, Smith & Co.	\$ 160,453	\$ 123,615
Consulting fees:		
Brady Martz & Associates, P.C.	27,225	26,675
CPAS Systems Inc.	633,660	410,000
MSI Systems Integrators	210,442	66,237
Total consulting fees:	<u>871,327</u>	<u>502,912</u>
Disability consulting fees:		
Dr. G.M. Lunn	350	300
Legal fees:		
ND Attorney General	3,624	11,916
Calhoun Law Group, P.C.	350	875
Total legal fees	<u>3,974</u>	<u>12,791</u>
Total consultant expenses	<u>\$ 1,036,104</u>	<u>\$ 639,618</u>

## **Reconciliation of Consultant Expenses to Schedule of Administrative Expenses**

	<u>2005</u>	<u>2004</u>
Total professional services on schedule	\$ 192,002	\$ 189,618
Plus capitalized expenses paid to CPAS	595,000	410,000
Plus IT contractual services from CPAS	38,660	-
Plus IT contractual services from MSI	210,442	40,000
Total consultant expenses	<u>\$ 1,036,104</u>	<u>\$ 639,618</u>